

Message Text

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PAGE 01 ANKARA 01808 111304Z
ACTION EUR-12

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TO SECSTATE WASHDC PRIORITY 979
INFO AMCONSUL ADANA
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AMCONSUL IZMIR
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SUBJECT: TURKEY DECREASES TAX REBATES FOR EXPORTS

REF: A) 75 ANKARA A-113, B) 77 ANKARA 7283, C) ANKARA 1275,
C) ANKARA 1588, E) ANKARA 1571

1. SUMMARY: FOLLOWING LARGE DEVALUATION OF LIRA ON
MARCH 1 (SEE REFTELS B AND E) TURKISH GOVERNMENT DECREASED
OR ELIMINATED TAX REBATES WHICH IT OFFERS FOR EXPORTS.
UNDER COUNCIL OF MINISTERS DECREE 7/14776, TAX REBATES WERE
ELIMINATED FOR COTTON AND TOBACCO EXPORTS AND SIGNIFICANTLY
REDUCED FOR EXPORTS OF A WIDE RANGE OF INDUSTRIAL PRODUCTS.
THIS MEASURE SEEMS LIKELY TO REDUCE TOTAL REBATES (VALUED
AT \$194 MILLION FOR 1977) BY AT LEAST 50 PERCENT. THE
RESULTING DECREASE OF APPROXIMATELY \$100 MILLION IN BUDGETARY
EXPENDITURES WILL HELP OFFSET INCREASE IN GOVERNMENT WORKERS'
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PAGE 02 ANKARA 01808 111304Z

SALARIES APPROVED BY PARLIAMENT ALONG WITH THE BUDGET ON
FEBRUARY 28 (SEE REFTELS C AND D). END SUMMARY.

2. TURKEY HAS HAD A TAX REBATE SYSTEM IN ORDER TO ENCOURAGE
EXPORTS SINCE JUNE 1963, UNDER LAW 261, WHICH HAS BEEN REVISED
FREQUENTLY. SYSTEM PROVIDES REBATES TO EXPORTERS OF CERTAIN
PERCENTAGE OF TAXE PAID DURING PRODUCTION. TAXES SUBJECT TO

REBATE ARE: PRODUCTION TAX, BORDER TAX, SUGAR TAX, STAMP TAX, CUSTOMS DUTIES, MUNICIPAL TAXES, REAL ESTATE TAX, MOTOR VEHICLE SALES TAX, AND TAXES ON SERVICE.

3. PERCENTAGE OF TAXES SUBJECT TO REBATE NOW VARIES BETWEEN 5 AND 30, WHEREAS IT USED TO VARY FROM 5 TO 45. TOBACCO USED TO BE SUBJECT TO 10 TO 15 PERCENT REBATE (DEPENDING UPON GRADE), AND COTTON USED TO RECEIVE 15 PERCENT REBATE. BOTH THESE REBATES ARE NOW ELIMINATED. AIRGRAM FOLLOWS WITH RATES APPLICABLE TO PRINCIPAL ELEVEN CATEGORIES OF EXPORTS, WHICH ARE MOSTLY INDUSTRIAL PRODUCTS, INCLUDING MOST TEXTILES AND APPAREL.

4. DURING PAST FOUR YEARS, SHARE OF TURKISH EXPORTS QUALIFYING FOR SUCH TAX REBATES INCREASED FROM 31 PERCENT (\$468 MILLION) TO 53 PERCENT (\$926 MILLION). AMOUNT OF REBATES INCREASED FROM \$66 MILLION IN 1974 TO \$192 MILLION IN 1977. CONSEQUENTLY, AVERAGE AMOUNT OF EXPORT PRICE REBATED PRIOR TO MARCH 2 ACTION HAD INCREASED FROM 14 PERCENT TO 21 PERCENT DURING SAME PERIOD.

5. BECAUSE INDUSTRIAL PRODUCTS, MAINLY TEXTILES, ARE SUBJECT TO HIGHER TAXES THAN AGRICULTURAL PRODUCTS, FORMER ALSO RECEIVED MORE REBATES UPON EXPORT FROM TURKEY. MAJORITY OF REBATES IN 1977 WERE FOR EXPORTS OF TEXTILES AND CLOTHING (\$103 MILLION), BUT EXPORTS OF FOOD PRODUCTS WERE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ANKARA 01808 111304Z

SUBJECT TO REBATE OF \$25 MILLION. EXPORTS OF TEXTILES AND CLOTHING WERE ALSO SUBJECT TO REBATES OF HIGHEST PERCENT OF EXPORT VALUE (26), FOLLOWED BY CEMENT (25), CHEMICAL MATERIALS (24), STOUT LEATHER (18), FOOD PRODUCTS (12), AND TOBACCO (10).

6. COMMENT. AS A RESULT OF THIS MEASURE, APPROXIMATELY HALF OF TURKEY'S EXPORTS HAVE LOST AT LEAST HALF OF THE EXPORT INCENTIVE FORMERLY PROVIDED THEM BY TAX REBATES. AVERAGE EXPORT SUBSIDY FOR THESE PRODUCTS WILL DECREASE FROM 21 TO 10 PERCENT OF THEIR VALUE. HOWEVER, FOR MOST PRODUCTS EFFECT OF THIS MEASURE WILL BE MORE THAN OFFSET BY DEVALUATION. TURKISH GOVERNMENT'S PURPOSE SEEMS TO BE TO DECREASE STRAIN ON BUDGET FROM SUCH REBATES WHILE ALSO RESPONDING TO IMF AND EEC CRITICISM OF SUCH EXPORT SUBSIDIES AS CONSTITUTING A FORM OF MULTIPLE EXCHANGE RATES. SPIERS

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